UNITED
NATIONS

E

Economic and Social Council

Distr.
GENERAL

E/C.10/AC.3/1991/3
4 February 1991

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of
Experts on International Standards of
Accounting and Reporting
Ninth session
5-15 March 1991
Item 3 (a) of the provisional agenda*

PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING: REVIEW OF IMPORTANT CURRENT DEVELOPMENTS AT THE GLOBAL AND NATIONAL LEVELS IN THE FIELD OF ACCOUNTING AND REPORTING BY TRANSNATIONAL CORPORATIONS

Review of important current developments at the national level in the field of accounting and reporting by transnational corporations

Report of the Secretary-General

SUMMARY

This report reviews the new legal requirements and/or standards that have recently been adopted in various countries, as well as those standards under consideration. The review is based entirely on country submissions in response to a questionnaire circulated to all member Governments. Forty-one countries replied, and more are expected to make oral reports during the ninth session which will be included in the 1991 annual review of Issues in International Accounting and Reporting. Other information on national standards relating to the four issues identified by the Group for discussion at the ninth session - accounting for and by joint ventures, accounting for environmental protection measures, accounting and reporting during and after the transition from state to private enterprises and organization of the accounting profession and the role and qualifications of auditors - has been included in the respective technical reports.

* E/C.10/AC.3/1991/1.

91-03578 2049i (E)

/...

CONTENTS

		Paragraphs	Page
I.	NEW LEGAL REQUIREMENTS AND/OR STANDARDS GOVERNING CORPORATE ACCOUNTING AT THE NATIONAL LEVEL	1	4
II.	CURRENT DEVELOPMENTS IN ACCOUNTING AND REPORTING	2 - 119	4
	Bahamas	2 - 3	4
	Bahrain	4 - 5	5
	Bolivia	6 - 8	5
	Brazil	9 - 16	6
	Canada	17 - 21	7
	Chile	22 - 23	9
	Colombia	24 - 25	9
	Czechoslovakia	26 - 35	11
	Cyprus	36 - 38	12
	El Salvador	39	12
	Finland	40 - 43	13
	Germany	44 - 54	13
	Ghana	55 - 58	15
	Hungary	59 - 62	16
	India	63 - 64	18
	Iraq	65 - 67	18
	Italy	68 - 72	19
	Japan	73 - 75	19
	Jordan	76	20
	Kenya	77 - 78	20
	Mali	79 - 80	21

CONTENTS (continued)

	Paragraphs	Page
Mauritius	81 - 84	22
Mexico	85 - 86	23
Morocco	87 - 89	23
Myanmar	90	24
Pakistan	91 - 92	24
Philippines	93	24
Portugal	94 - 95	24
Republic of Korea	96 - 97	24
Singapore	98 - 100	25
Spain	101 - 102	26
Sweden	103 - 105	27
Switzerland	106 - 110	27
Turkey	111 - 113	28
United Kingdom of Great Britain and Northern Ireland	114 - 117	28
Zaire	118 - 119	30

I. NEW LEGAL REQUIREMENTS AND/OR STANDARDS GOVERNING CORPORATE ACCOUNTING AT THE NATIONAL LEVEL

1. The present report was prepared on the basis of responses to a note verbale and questionnaire circulated to all member Governments. A total of 41 replies were received; 36 are reproduced here; two were not usable and three (China, France, Union of Soviet Socialist Republics) will appear in an addendum. The United Nations Centre on Transnational Corporations acknowledges, with appreciation, the co-operation of the respondents in providing the information requested. The questionnaire facilitated replies and improved the quality of information and the response rate compared to previous years. There still appears to be a problem in the prompt transmission of the questionnaire from the receiving government departments to the department in charge of accounting matters. The Centre invested considerable resources in follow-up letters and telefaxes and often discovered that the appropriate authorities had not yet received the questionnaire. The experts may wish to take up this matter with their respective Governments as appropriate in order to improve the transmission of the questionnaire to the appropriate parties. Some countries noted that the questionnaire that contained recommendations on the environment was rather long and suggested that countries might be sent an abbreviated request (that is, only questions one and two). Since the questionnaires arrive too late to be of much use in the preparation of the technical papers, there is some merit in this suggestion. On the other hand, much interesting information is submitted that could be annexed to the technical reports when they are published in the annual review.

II. CURRENT DEVELOPMENTS IN ACCOUNTING AND REPORTING

Bahamas

2. There are certain legal requirements applicable to insurance companies, banks and government corporations in preparing annual audited financial statements. Such statements should conform to generally accepted accounting standards which, in the Bahamas, are the standards promulgated by the International Accounting Standards Committee (IASC). The Bahamas Institute of Chartered Accountants (BICA) has designated the standards of IASC as the applicable standards of reporting in the Bahamas. The Government, as such, has not prescribed any specific standards with respect to the form and content of financial statements. Banks and insurance companies, however, are required by law to file periodic returns on their activities and positions, which are used to aid in the regulation of the respective industries. The Bahamas has recently adopted the following standards:

IAS 26 Accounting and Reporting by Retirement Benefit Plans

IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries

IAS 28 Accounting for Investments in Associates

BICA has considered the following exposure drafts:

ED 31 Proposed Statement: Financial reporting in hyperinflationary economics

ED 32 Comparability of financial statement: Proposed amendments to International Accounting Standards 2, 5, 8, 9, 11, 16, 17, 18, 19, 21, 22, 23 and 25

ED 33 Proposed statement: Accounting for taxes on income (as there are no income taxes in the Bahamas, this issue is unlikely to have a significant impact on local practice)

ED 34 Proposed statement: Disclosures in the financial statements of banks and similar financial institutions

3. In addition, BICA resolved that while the relationship of a controlling interest is required to be disclosed pursuant to IAS 24 (whether or not transactions take place), the identity of such party need not be disclosed. BICA is of the view that this position, is consistent with the spirit and intent of IAS 24.

Bahrain

4. There are no locally prescribed standards for accounting and financial reporting in Bahrain.

5. The International Accounting Standards are generally referred to by the accounting profession, but this is not mandated by law.

Bolivia

6. All public and private enterprises are required to submit their financial statements, as follows:

(a) General balance sheet, trial balance, statement of changes in financial position and statement of source and application of funds;

(b) Where reported capital is more than 300,000 Bolivian pesos and annual earnings exceed 600,000 Bolivian pesos, these financial statements must be submitted to the income tax authorities, together with an external auditor's opinion.

7. The Law on the System of Administration, Auditing and Governmental Control, adopted by the National Congress on 9 July 1990, sets legal accounting and reporting standards for the public sector. Article 27 of this law provides that each entity in the public sector shall draw up, within the framework of the basic standards issued by the policy-making bodies, specific rules for the functioning of the administrative systems and internal audit subject to this law, and of planning and public investment systems.

8. The following requirements also apply:

(a) For purposes of further external audits, entities subject to governmental control shall send the Office of the Controller a copy of their contracts and supporting documents within five days from the time the documents are finalized;

(b) Within three months of the close of the fiscal year, each financially autonomous entity with its own capital must submit financial statements of the previous business year, together with corresponding notes and the internal auditor's report, to its supervisory body and the National Office of General Auditing, and it shall make such records available to the General Office of the Controller of the Republic.

Brazil

9. Accounting and reporting by Brazilian corporations are provided for by the Corporation Law of 1976. Publicly held companies are subject to additional reporting requirements determined by the Brazilian Securities Commission (Comissao de Valores Mobiliários (CVM)). Regulated industries (utilities, banking and financial institutions, insurance, pension funds etc.) are subject to accounting and reporting requirements provided for in specific legislation. Tax legislation also affects accounting standards.

10. The Brazilian Institute of Accountants (IBRACON), a private entity that includes accountants with a university degree, has been preparing proposals of technical pronouncements (statements) on accounting and auditing standards issues. Such proposals, when adopted by CVM, the Central Bank of Brazil and the Federal Council of Accountants, become mandatory in their related area of enforcement.

11. During 1989 and 1990, several major accounting and reporting requirements affecting Brazilian corporations were introduced.

Normative rulings from CVM

12. Periodically, CVM issues normative rulings on accounting and reporting matters affecting publicly held corporations. The major subjects dealt with by CVM were:

(a) Improvements in the method of preparing price-level financial statements, basically allowing the use of monthly average inflation coefficients;

(b) Guidance to publicly held companies and independent auditors on relevant accounting and reporting issues to be observed in the 31 December 1989 year-end closing;

(c) Change in the quarterly reporting requirement, whereby additional disclosures were introduced and auditors' special (limited) reviews were required;

(d) Constitution of a top-level consulting committee on disclosure policies of publicly held companies: (i) to contribute, in all relevant aspects, towards the disclosure of information of publicly-held companies aiming at the development

of the securities market; it is expected that the committee will present suggestions and opinions that may improve the rulings to be issued by CVM; (ii) to render opinions on the rulings already issued by CVM, with a view to their eventual updating.

Pronouncements from IBRACON

13. The major accounting and reporting matters addressed by IBRACON in 1990 were technical statements Nos. 001/90 and 002/90, dealing with the minimum scope of the special auditors' review of the quarterly financial statements for the period ended 31 March 1990 and all periods ending from 30 June 1990, respectively.

14. Included in technical statement 001/90 was the requirement to disclose, in the 31 March 1990 quarterly statements, the effects of the "New Brazil Plan", set out by the Federal Government on 16 March 1990.

15. Specific legislation affecting regulated industries is not listed above nor is the tax legislation that affected accounting practices.

16. The following issues are currently being considered for standard-setting:

(a) Setting out rules applicable for the operation of the recently introduced "commercial paper";

(b) Requirement of full price-level accounting to commercial banks and other financial institutions;

(c) Change in the wording of the independent auditors' report on financial statements;

(d) Finalization of the guidelines on auditing procedures.

Canada

New legal requirements

17. In November 1989, the Ontario Securities Commission and the Québec Securities Commission (Commission des valeurs mobilières du Québec) issued their policy statements on the annual information form and management's discussion and analysis of financial condition and results of operations.

Accounting standards

18. The following new standards have been issued since August 1989, the date of the previous response:

(a) Discontinued operations (CICA Handbook, sect. 3475, issued December 1989). The results of discontinued operations should be included in net income and reported separately for current and prior periods;

(b) Extraordinary items (revised CICA Handbook, sect, 3480, issued December 1989). This revised section significantly narrows the previous definition of extraordinary items; the outcome of the related transaction or event must not have depended primarily on decisions or determinations by management or owners;

(c) Non-monetary transactions (CICA Handbook, sect. 3830, issued December 1989). Non-monetary transactions are to be recorded at the fair value of the assets or services provided, unless they do not represent the culmination of the earnings process or represent a restructuring or liquidation.

(d) Pension plans (CICA Handbook, sect. 4100, issued March 1990). This section establishes accounting standards for general purpose financial statements of defined benefit and defined contribution plans. It states that pension plan financial statements should include: (i) a statement of net assets available for benefits; (ii) a statement of changes in net assets available for benefits; and (iii) information with respect to pension obligations;

(e) Capital assets (CICA Handbook, sect. 3060, issued October 1990). This new section replaces existing accounting standards on fixed assets (CICA Handbook, sect. 3060), intangibles (sect. 3080) and appraisal increase credits (sect. 3270). It requires:

(i) Write-down of capital assets when net carrying amount exceeds net recoverable amount;

(ii) Recognition of the liability arising from future removal and site restoration costs that are incurred because of environmental law, contract or company policy;

(iii) Amortization of all capital assets (that is, both tangible and intangible), except land, in a rational and systematic manner.

19. The Accounting Standards Committee of the Canadian Institute of Certified Accountants (CICA) has issued an exposure draft on the following subjects for comment by interested parties:

(a) Financial statement concepts: non-profit organizations (January 1990);

(b) Long-term investments (April 1990).

20. Other issues currently being considered are:

(a) Interest on assets and liabilities;

(b) Establishing a new cost basis;

(c) New financial instruments (being undertaken on a joint basis with IASC);

(d) Specific issues relating to non-profit organizations.

The project on corporate income taxes has been discontinued.

21. Proposals have recently been approved to undertake new projects on contingencies, related party transactions, foreign currency translation (certain aspects), and investments in joint ventures.

Chile

22. During the past two years, the following regulations have been enacted:

Circular No. 678 (16 June 1989) regularizes the treatment for the revaluation of fixed assets;

Circular No. 869 (22 September 1989) stipulates the information to be given to the public by companies that list their securities on the Stock Exchange;

Circular No. 922 (23 January 1990) has the goal of using the actual format of the financial statement to provide information both about the issues in the Registry of Securities and about the presentation of financial statements; this circular modifies a previous one (No. 239) relating to the rules governing the form and content of the financial statements of companies listed in the Registry of Securities, adding information that is to be presented in the Registry of Uniform Statistics;

Circular No. 931 (14 February 1990) sets out rules regarding the disclosure of periodic information about the issue and placement of securities;

Circular No. 939 (16 April 1990) gives instructions about accounting for leases; defines general concepts and gives instructions about the valuation of assets, the necessity of making provisions and other accounting rules for leasing operations whose accounts must be presented in the Registry of Uniform Statistics as well as information that is to be included in their financial statements.

23. Currently under consideration are rules for forward contracts and deferred payments.

Colombia

24. The Ministry of Economic Development certifies that the companies subject to its audit authority and inspection comply with the following standards:

Laws and decrees

1. Decree regulation 2160 of 1986. Regulated commercial accounting and established generally accepted accounting standards.

2. Decree regulation 2553 of 1987. Amended articles 7, 14, 22, 34, 60, 68, 71 and 95 of decree 2160 of 1986, and repealed articles 41, 42 and 43 thereof.

3. Decree law 2686 of 1988. Attention is drawn to the article amending accounting standards, particularly in connection with "valuation at cost". Article 7 may be summarized as follows: depreciation for tax purposes on assets acquired from 1989 on may be based on book values adjusted for inflation.

4. Decree regulation 1000 of 1989. Provides for the share premium to be treated as a capital surplus in the accounts so that it will not constitute taxable income.

5. Decree regulations 3019 and 3032 of 1989. Govern, in particular, the establishment of percentage adjustments for inflation to arrive at the adjusted cost of fixed assets for the years 1989 and 1990; also specify accounting treatment of adjustments for inflation. Introduce "revaluation of capital" account (credit balance).

6. Act No. 7 of 1990 and decree regulation 748 of 1990. Accounting treatment of own shares repurchased by livestock funds to offset losses on debts contracted in good faith, as well as shares and dividends not claimed by shareholders within a period of three years.

7. Decree regulation 1380 of 1990. Establishes regulations under articles 126 and 132 of the Code of Commerce relating to the procedures and support documentation for approval by the Companies Board of the valuation of contributions in kind.

External circulars

1. External circular No. 010 of 30 December 1988. Contains instructions relating to the presentation and quantification of actuarial calculations and accounting records.

2. External circular No. 001 of 12 January 1989. Provides that recording in the accounts of valuations of property, plant and equipment covered by article 48 of decree 2160 referred to above is optional in respect of the financial years ending 31 December 1988 and 31 December 1989.

3. External circular No. 001 of 22 January 1989. Provides that, with effect from issuance of the circular, companies that elect to record valuations for the 1989 financial year in the accounts must do so subject to the requirements of article 48 of decree 2160 of 1986, and further provides that, for the 1990 financial year, valuations of property, plant and equipment must be reflected in the appropriate financial statements.

4. External circular No. 004 of 1 March 1990. Provides instructions on how to fill out the official form on which companies must present financial statements for the 1989 financial year and subsequent financial periods,

25. The following draft decrees and circulars are being considered:

1. Draft decree regulation on books of account. By virtue of the authority conferred under articles 50, 56 and 2035 of the Code of Commerce, defines which books must, as a minimum, be kept by businesses, the way in which accounts must be kept and the filing and safekeeping of a business's books and documents.

2. Draft external circular on consolidated financial statements. States minimum requirements for the preparation and presentation of consolidated financial statements, in accordance with article 14, as amended by article 2 of decree 2553 of 1987, and article 85 of decree 2160 of 1986.

3. Draft external circular on accounting regulations governing livestock funds and presentation of financial statements.

4. Draft external circular on reports to be submitted to the Companies Board by brokers at the National Agricultural Exchange.

Czechoslovakia

Developments in 1989 and 1990

26. Law 128/1989 replaced law 21/1971 on a uniform socio-economic information system.

27. Government decree No. 136/1989 on the information system of organizations established the basic rules for accounting, bookkeeping, calculation, statistics, audit of financial statements, valuation of assets, and budgeting of enterprises. This decree will be revised in 1992.

28. Government decree 23/1990 of the Federal Ministry of Finance established the duties of organizations, forms of accounting documents, their review, ledgers, ways and means of keeping them etc. This decree also promotes the computerization of accounting. It will be revised in 1992.

29. Directive V/13000/1989 of the Federal Ministry of Finance establishes the schedule of accounts and their code numbers. The schedule of accounts, comprising general accounts, is binding on all state enterprises, joint ventures and joint stock companies. In selected sections of the schedule of accounts, enterprises may create their own lists of accounts. The directive simplifies financial statements and facilitates their use for the control of enterprises.

30. Directive V/Z-4900/1990 of the Federal Ministry of Finance on private enterprise accounting includes accounting rules for private enterprises. Small private companies with less than 25 employees and with profits less than 540,000 koruny, are not obliged to use double-entry accounting and may use a cash book. Larger private enterprises must use double-entry bookkeeping and must draw up a balance sheet, income statement and profit allocation report.

31. Directive No. V/1500/1990 lists the accounts and accounting rules for all types of organizations in the productive sector, including state enterprises, joint ventures and joint stock companies. Each type of enterprise has special accounts,

which means, for instance, that joint ventures do not use the special accounts for state enterprises.

32. On 27 June 1990, the Union of Accountants was established and in September, the Slovak Accountants' and Auditors' Union was created. Both are independent of Government, having their own constitutions and economic rules.

33. Decree 63/1989 of the Federal Ministry of Finance on auditors and their work is still in operation. Under the present decree, auditors must check the annual statements and the economic activity of the enterprise and make a written report. A new set of laws concerning auditors and their work in a wide variety of corporations - joint ventures, state enterprises, joint-stock companies etc. - is being prepared. It is expected that the laws will come into effect on 1 January 1992.

34. To accomplish economic reform and the transition to a market economy, new accounting regulations have to be prepared. They will be based on the Fourth, Seventh and Eighth Directives of the Council of the European Communities. Laws 21/1971 and 128/1989 will be cancelled in 1992 and basic accounting rules will be written into a new business law. This will simplify and unify accounting rules. At present, the Government is dealing with the problems of privatization, the application of simplified accounting in some of the new types of corporations, the transformation of financial statements to those used in a market economy, collecting accounting data for the purpose of establishing national accounts etc.

35. The aims of privatization are stated in the Scenario of the Economic Reform in Czechoslovakia. Before the extensive process of large-scale privatization occurs, a minor privatization will take place mainly in the trade and service sectors. Property will be offered to Czechoslovak citizens at auctions and will be paid for in cash. Major privatization will most frequently involve the formation of joint stock companies. The shares will be partly paid by so-called investment coupons (vouchers), which will be given to Czechoslovak citizens free of charge.

Cyprus

36. No new accounting standards were adopted during the recent period.

37. Accounting and reporting in Cyprus is governed by the Companies Law. In addition, the Institute of Certified Public Accountants of Cyprus has adopted the International Accounting Standards in their entirety.

38. Changes in the Companies Law are currently being considered by an ad hoc committee set up by the Government.

El Salvador

39. The following new requirements governing corporate accounting were adopted during 1989 and 1990:

(a) The revaluation of fixed assets account must be separate from cost of acquisition of the revalued property (Commercial Code 1973);

(b) The loans to shareholders account must be separate from accounts payable, current, in order to provide better balance-sheet disclosure. Capital not fully paid must be reported in a special account (minimum requirements for the establishment of an accountancy system);

(c) The system of direct costing is not allowed.

Finland

40. Some technical changes were introduced into the Accounting Law as at 1 January 1990 concerning the utilization of advanced data processing and microfilm techniques in recording and filing accounting material.

41. The Finnish Accounting Standards Committee has issued a pronouncement referring to the introduction of the imputation system in the taxation of dividends and several other pronouncements in connection with the practical interpretation of the Accounting Law in 1989 and 1990.

42. A governmental committee is currently considering changes in the Finnish accounting legislation in order to bring Finnish accounting norms closer to European Community practice. The Accounting Law Reform Committee has also been analysing the possibilities of separate tax accounting and financial accounting systems.

43. The Finnish Accounting Standards Committee is currently preparing an extensive pronouncement referring to accounting in a computerized environment. It is also considering a pronouncement in connection with accounting of new financial instruments.

Germany

44. The Act Governing the Production of Opening Balance Sheets in Deutsche Marks and the Assessment of Capital, dated 23 September 1990, forms part of the Treaty of 31 August 1990 between the Federal Republic of Germany and the former German Democratic Republic (Unification Treaty). The Act came into effect together with the Treaty on 29 September 1990 (Federal Law Gazette II, pp. 885, 1169), and has been applicable since 1 July 1990. Following the accession of the German Democratic Republic, it continues in force as partial federal law of the Federal Republic of Germany in the former territory of the German Democratic Republic. At the same time, competences were transferred to the organs and agencies of the Federal Republic of Germany.

45. Under the Act, all undertakings with registered offices in the territory of the former German Democratic Republic that are required under commercial law to produce full business accounts, are obliged to produce an opening balance sheet and notes on the position as at 1 July 1990, within a period of four to six months. Undertakings that are also parent companies must also produce a consolidated opening balance sheet and consolidated notes.

46. To a large extent, the directions for annual accounts contained in part III of the Commercial Code, as amended in accordance with the Fourth Directive of the Council of the European Communities, are to be applied to the opening balance sheet.

47. Assets and liabilities are, in principle, subject to revaluation unless they must be converted into deutsche marks at a specific rate as receivables or liabilities. The valuations contained in the opening balance sheet are to be regarded in future as acquisition or production costs.

48. The revaluation is to be based on replacement or reproduction costs. However, assets must not be fixed at levels above their current market value. In the case of depreciable assets, account must be taken of wear and tear and of shortfalls in technical advancements by reducing the assessed values. Such reductions are also to be applied to land used for the disposal of waste and recultivation, to buildings and technical and other plants for neglected maintenance and large-scale repair work.

49. The useful life of depreciable assets is to be reassessed. This is to be effected on the basis of time periods fixed as at 1 July 1990 for the determination of taxable income.

50. The revaluation of assets and liabilities will, in many cases, lead to a situation in which undertakings will be forced to show in their opening balance sheet too low a value of equity capital or even that liabilities exceed assets. In undertakings formerly "owned by the people" that are capable of rehabilitation, the situation in which liabilities exceed assets will be ended by the granting of equalization claims against the parent company.

51. The creation of the minimum capital prescribed by the legal form of the undertaking will be regulated under company law by requiring the parent company to make a corresponding contribution. Where this contribution was made before the currency conversion, a capital depreciation account may be opened by all undertakings concerned, which must then be set off against the undertaking's results in subsequent years. Finally, it will be possible for undertakings to create equity capital in the form of a temporary profit reserve by capitalizing their own intangible assets. This reserve must be set off from the results in subsequent years.

52. Opening balance sheets in deutsche marks are to be examined by independent auditors and published; concessions will be made for small and medium-sized undertakings.

53. The opening balance sheet also forms the basis for future taxation. Changes in the value of assets resulting from revaluation and currency conversion are not liable for taxation.

54. In the period under review, the Institute of Certified Accountants published comments on the principles of proper accounting; mention should be made in particular of the following:

(a) Accounting by the lessor (HFA 1/1989). Leased assets are recorded in the balance sheet of the lessor if the lessor is the owner in legal and economic terms. In these cases the leased assets should be shown separately, beyond the statutory breakdown. In the valuation, the costs of the leasing contract may neither be capitalized as purchasing or manufacturing costs of the leased asset nor as intangible assets or accrued and deferred items. In addition, the comments include proposals on the receipt of lease payments affecting profit and loss, where the contractual arrangements do not lead to an appropriate balance between performance and counter-performance in the individual periods. Furthermore, the comments deal with the accounting of the forfeiting of lease claims.

(b) Inventory procedures (HFA 1/1990). The comments deal with the essential principles for physical stock-taking within the inventory process. Any businessman may freely choose the inventory procedure suitable for his particular purpose. The comments include recommendations on inventory procedures for automatically controlled storage systems and for system-supported workshop inventories. Comments on sampling procedures for the stockpiling inventory for the purpose of annual financial statements (HFA 1/1981) have been revised and republished (HFA 1/1981 in the version of 1990) because of further developments in the statistical bases, in particular because of the widespread taking into account of so-called test procedures.

(c) Overall valuation adjustment for credit institutions (BFA 1/1990). In the comments on the establishment of overall adjustments for the latent credit risk in the annual financial statement of credit institutions, there are recommended principles on how to value that part of the credit risk that is not covered by individual adjustments.

Ghana

55. Corporate accounting and reporting is governed by the following legislative instruments:

(a) Companies Code, 1963, Act 179;

(b) Financial Administration Regulation, 1979;

(c) Instruments of Incorporation - statutory bodies;

(d) Audit Service Decree 1972;

(e) International Accounting Standards (IAS).

Standards of accounting

56. The Fourth Schedule of the Companies Code describes the form the financial statement should take and items to be included therein.

Standards of reporting

57. The Fifth Schedule specifies matters to be expressly stated in the auditor's report, such as:

(a) Whether the information and explanations necessary for the audit have been obtained;

(b) Whether proper books of accounts have been kept;

(c) Whether the financial statement is in agreement with the books of accounts and returns;

(d) Whether the balance sheet shows a true and fair view of the state of affairs and the profit-and-loss account shows a true result for the period. In case of government audit, the auditor is, in addition, expected to report on the government budgetary resource allocation and utilization.

58. The Institute of Chartered Accountants of Ghana is currently considering promulgating Professional Standards of Accounting and Auditing. To this end, a Professional Standards of Accounting and Ethics Committee, set up under the chairmanship of a former Auditor-General, has submitted its report to the Council of the Institute for study and approval.

Hungary

59. Financial statements are still regulated by Order No. 60/1987 (XII.7) of the Ministry of Finance. No new regulations have been passed to amend this. However, three Acts (Decrees) do have a minor bearing on the provision of financial information:

(a) The Act on Economic Associations, 1988, stipulates that the Board of Directors of Companies Limited by Shares shall make public the balance sheet and the report of the Board of Directors;

(b) Act XIII, 1989, on the Transformation of Economic Organizations and Economic Associations, gives minimum guidance on the valuation of the enterprise, its assets and the drawing up of new balance sheets;

(c) Decree 30/1989 (VII.1), on property in the balance sheet, gives more detailed guidance on the valuation of assets and liabilities under the Transformation Act.

60. Under the Transformation Act, the following rules will be applied:

(a) A transformation balance sheet is drawn up to reflect the realistic market value of operating assets containing the valuation approved by the new owners;

(b) The transformation balance sheet must be audited by a chartered accountant;

(c) A closing balance sheet as of the transformation day is drawn up, supported by an inventory, including the distributed profit in accordance with the valid profit tax law;

(d) The difference between the asset value shown on the closing balance sheet versus that on the transforming balance sheet shall be charged to accumulated retained earnings;

(e) The transforming balance sheet includes the revalued assets and liabilities of the transforming organizations and the amount of owners' equity accepted by the new owners. The owners' equity includes the registered capital, the accumulated retained earnings and the reserve fund. In the course of transformation, the value of the reserve may not be increased.

61. To help in the valuation of enterprises, Decree 30/1989 discusses the establishment of an initial price of shares. To arrive at the initial price, a number of factors have to be considered, such as assets bearing individual value, human factors, including management, organization, trained labour, intellectual property, innovation, research and supplier infrastructure, customer relationships, market share prospects and goodwill. As supplementary information, the new company's value can be determined as the discounted value of the expected earnings.

62. New accounting regulations are under consideration and should be introduced in the new accounting law due in 1992. The strict and detailed state regulations will be replaced by more flexible regulations. The new act will cover the content of the annual financial reports and will not prescribe detailed bookkeeping rules. It will also include disclosure requirements and auditing by independent auditors. The financial reports will be prepared according to international accounting principles. The concept of "regularity" will be replaced by that of "true and fair review". The financial reports will be directly comparable to the financial reports of those found in the member countries of the European Community. The following issues will be addressed by the law:

(a) Use of historical costs for a "going concern" and market values when enterprises go out of business;

(b) Adoption of the lower of cost or market approach to valuation of inventories and marketable securities;

(c) Depreciation techniques must be expanded beyond the traditional straight-line approach;

(d) Bad debt expense must be estimated;

(e) Inflation accounting techniques should be introduced;

(f) Accounting methods for long-term investments.

India

63. The following accounting and reporting standards were adopted during the current period:

(a) A new Accounting Standard on Accounting for the Effects of Changes in Foreign Exchange Rates has been issued by the Institute of Chartered Accountants of India. The Standard supersedes an earlier statement issued by the Institute on the subject;

(b) A Guidance Note on Accounting for Depreciation in Companies has been issued by the Institute. This follows recent amendments to the Indian Companies Act, whereby the rates of depreciation for various types of assets have been prescribed in the Act itself. Earlier, the Act required provision for depreciation to be made on the basis of rates prescribed in the Income Tax Act Rules. The need for change arose because the rates prescribed in the latter Act Rules currently contain a significant element of fiscal incentives in respect of certain types of assets and, therefore, in many cases do not reflect the true commercial depreciation rates;

(c) The Institute of Chartered Accountants of India has decided to make six more accounting standards mandatory. Two of the 11 accounting standards issued by the Institute so far are mandatory in nature and others will be mandatory in respect of accounts for periods beginning on or after 1 April 1991. The mandatory nature of an accounting standard implies that, while discharging their attested function, it will be the duty of the members of the Institute to report in case of any deviation from the standard.

64. The Accounting Standards Board of the Institute of Chartered Accountants of India is currently developing accounting standards on the following subjects:

(a) Accounting for government grants;

(b) Accounting for retirement benefits;

(c) Accounting for business combinations;

(d) Accounting for investments;

(e) Segment reporting.

Iraq

65. Regulation No. 5/1989, on foreign corporate branches and bureaux, was issued cancelling the previous regulation, No. 17/1984. The new regulation stipulates the following:

(a) The branch must maintain its records and accounts in Arabic;

(b) All the branches must be audited by the Board of Supreme Audit (BSA);

(c) The branches must use the Iraqi accounting system that applies to national enterprises;

(d) Every branch must present its annual financial statement, accompanied by the administration report, three months after the ending of the fiscal year.

66. The Board of Accounting Rules and Standards in Iraq was established in 1989. It took up its responsibilities in the same year. The Board is headed by the President of the Board of Supreme Audit; membership includes all members of the Board of Supreme Audit and representatives from the Ministry of Finance, the Ministry of Planning, Baghdad University, Mustansyriah University and the Union of Iraqi Accountants and Auditors. The main objectives of the Board are to discuss and formulate accounting standards.

67. The Board of Accounting Rules and Standards has issued its first standard on reporting and accounting for construction and buildings. This standard consists of definitions and types of construction and building contracts and how to select a proper method of measurement.

Italy

68. On 28 March 1990, Parliament adopted a law by which the Government is enabled to issue legislation incorporating into Italian law the Fourth and Seventh Directives of the Council of the European Communities into Italian law (EEC/78/660 and 83/349).

69. The law introduces the requirement that corporate groups draw up consolidated accounts, in addition to the separate company accounts drawn up by group companies.

70. The provisions implementing the Fourth and Seventh Directives do not apply to credit and financial institutions; these will be subject to Directive 86/635 which specifically concerns them.

71. Parliament has reached an advanced stage in its examination of a bill that would enable the Government to issue legislation implementing Directive 86/635, on the annual accounts and consolidated accounts of credit institutions, and Directive 89/117, regarding the publication of annual accounting documents by the Italian branches of credit institutions having head offices in other countries.

72. Parliament is also examining legislation necessary for supplementing the provisions currently in force concerning public disclosure by companies that issue securities admitted to official stock-exchange listing.

Japan

73. The Business Accounting Deliberation Council, an advisory body to the Minister of Finance, establishes financial accounting standards for business enterprises and auditing standards, which serve as guidelines for the preparation of financial statements and for auditing by a certified public accountant. The members of the Council are professors, certified public accountants, government officials and

representatives of business and industry, all of whom are appointed by the Minister of Finance. In this sense, it could be said that Japanese accounting standards are set in the public sector.

74. In May 1990, the Council issued an opinion on accounting standards concerning futures and option transactions. An outline of the opinion is given below:

(a) The following information should be disclosed in the notes to financial statements in accordance with the type of transaction:

(i) Listed futures transactions:

Unsettled contact value, market value and the balance;

(ii) Listed option transactions:

Balance-sheet value of options, market value and the balance.

This requirement should be applied mutatis mutandis to merchandise futures and option transactions.

(b) Balance-sheet value, market value and the balance in connection with marketable securities should be disclosed in the notes to financial statements in accordance with the kinds of securities.

75. The opinion of the Council also contains, on an interim basis, basic ideas concerning accounting practices in connection with futures transactions developed out of the Council's deliberations. Those ideas are to serve as a reference in future accounting standard-setting.

Jordan

76. International accounting standards and international auditing guidelines govern corporate accounting and reporting in Jordan from the beginning of 1990.

Kenya

77. The following new Kenyan Accounting Standards (KAS) became effective in 1989 or later:

KAS No.	Description	Issue date	Effective date
9	Accounting for the effects of changes in foreign exchange rate	September 1988	1 January 1989
10	Accounting for income tax	September 1988	1 January 1989

KAS No.	Description	Issue date	Effective date
11	Group accounts - accounting for subsidiary companies	September 1988	1 January 1989
12	Group accounts - accounting for associated companies	September 1988	1 January 1989
13	Accounting for goodwill	September 1988	1 January 1989
14	Accounting for investments	September 1988	1 January 1989
15	Related party transactions	September 1989	1 January 1990
16	Revenue recognition	September 1989	1 January 1990
17	Accounting for property, plant and equipment	September 1989	1 January 1990

78. The following questions are currently being considered:

(a) Issuing a KAS on accounting for revaluation items. An exposure draft has been issued to members for their comments;

(b) Review of existing standards, taking into account any inconsistencies with other accounting standards and the problems, if any, faced on their compliance.

Mali

79. The new legislative regulations concerning accounting practices of enterprises come from the new Code of Commerce, the general code of the taxation authorities and circulars of relevant authorities.

The main objectives are:

(a) Establishment of financial statements once a year;

(b) Respect of recording principles according to the 1957 French General Accounting Plan;

(c) Bookkeeping of official journals and inventories;

(d) Preservation for 10 years of every document relating to bookkeeping, and establishment of annual accounts (balance sheet, income statement, profit and loss accounts);

(e) Transmitting annual accounts to the taxation authorities within a period of three months after the end of the exercise.

80. Regarding accounting issues under consideration, under the aegis of the Adjustment Programme of Public Enterprises (APPE), some enterprises have received funds to improve their balance sheets, but no agreement has been reached by the Ministry of Planning and the Ministry of Commerce on how to record these funds.

Mauritius

81. During the period under review, the Mauritius Accounting and Auditing Standards Committee Act (1989) was proposed.

82. The purpose of the Act is to set up the Mauritius Accounting and Auditing Standards Committee with the following objectives:

(a) To formulate and publish accounting and auditing standards and guidelines;

(b) To advise the Minister of Finance on the improvement and harmonization of accounting and auditing standards.

83. The Act provides that, in formulating accounting and auditing standards and guidelines, the Committee may consider standards published by any recognized organization engaged in promoting accounting and auditing standards.

84. The following issues are under consideration:

(a) Valuation and presentation of stocks and work in progress;

(b) Accounting for property, plant and equipment;

(c) Depreciation accounting;

(d) Extraordinary items and prior year adjustments;

(e) Contingencies and post balance-sheet events;

(f) Accounting for investments;

(g) Consolidated financial statements and accounting for investments in subsidiaries, associates and for business combinations;

(h) Treatment of borrowing costs;

(i) Accounting for taxes on income;

(j) Accounting for effects of changes in foreign exchange rates;

(k) Accounting for leases;

(l) Accounting for construction contracts;

(m) Presentation of current assets and liabilities.

Mexico

85. In 1989, amendments to the present accounting regulations stipulated compliance with the Bulletin of the Mexican Institute of Public Accountants, which lays down the rules for submitting the figures needed for financial statements in terms of the purchasing power of the peso at the end of the accounting period. The Mexican Bulletin of Public Accountants established the rules for discounting net worth. The National Securities Commission of the Department of Finance and Public Credit specified what financial information must be provided by issuing agencies whose securities are quoted on the Mexican Stock Exchange.

86. Future projects include:

(a) Updating pension plan accounting;

(b) Investments in joint-venture projects;

(c) Information by business segments;

(d) Inclusion of banks, insurance companies and stock exchanges in the accounting standards of the Mexican Institute of Public Accountants;

(e) Conversion to Mexican pesos of financial statements expressed in foreign currencies.

Morocco

87. On 20 June 1989, the Council of Ministers approved by decree the General Code of Accounting Standards, which applies first to public enterprises and, at a later stage, to all enterprises. The General Code of Accounting Standards consists of two parts: the first part contains the fundamental principles governing the standard-setting exercise in Morocco for accounting, and the second provides a codification of accounts for use by enterprises. The Code also contains provisions for consolidated accounts, cost accounting and accounting terminology.

88. The Council of Ministers also established in the same decree the National Accounting Council, an inter-occupational and inter-ministerial body responsible for setting accounting standards. On 1 November 1989, the Council of Ministers adopted the following texts:

(a) Draft law establishing standards of accounting;

(b) Draft law governing the public accounting profession and establishing a professional association of public accountants;

(c) Decree concerning the national public accounts' diploma.

89. The following texts were published in the Official Gazette, No. 4023, of 6 December 1989:

(a) Decree setting forth the rules governing the accounting practices of public enterprises;

(b) Decree establishing the National Accounting Council.

Myanmar

90. No new legal requirements and/or standards governing corporate accounting and reporting were prescribed in the country during 1989 and 1990. As a matter of fact, no professional body has been given the authority to set corporate accounting or reporting standards.

Pakistan

91. Corporate accounting in Pakistan by companies listed on the Stock Exchange is carried out in accordance with the standards issued by the International Accounting Standards Committee, except for IAS 3, IAS 15 and IAS 22. The disclosure requirements in the accounts are laid down in Companies Ordinance, 1984.

92. The Corporate Law Authority, as the regulatory agency, is considering introducing cost accounting.

Philippines

93. There were no new accounting developments in 1989 and 1990 and no accounting issues are under consideration.

Portugal

94. During 1988 and 1989, the new legal requirements and/or standards governing corporate accounting and reporting (National Chart of Accounts and Accounting Standards) were revised taking into consideration its adaptability to the Fourth Directive of the Council of the European Communities (78/660/CEE) and to the International Accounting Standards. This work has been completed but is awaiting governmental approval, which is expected sometime during the current year.

95. The accounting and reporting issues currently being considered for standard-setting in 1990 include the incorporation of the Seventh Directive of the Council of the European Communities (83/349/CEE) into the Portuguese accounting system.

Republic of Korea

96. The following requirements and/or standards governing corporate accounting and reporting were adopted during 1989 and 1990:

(a) Revision of the Law on External Audit of Corporations;

(i) The right to set auditing standards was recently transferred from the Korean Organization of Certified Public Accountants to the Security and Exchange Commission (SEC);

(ii) The corporations subjected to the Law of External Audit of Corporations should file their financial statements (annual reports) with SEC and when the corporation violates the accounting standards, SEC may restrict the issuance of corporate securities;

(b) The revision of Generally Accepted Accounting Principles in Korea:

(i) Amendments. Method of valuation for marketable securities, foreign currency translations, statement of changes in financial position etc.;

(ii) New articles. Convertible bonds, bonds with warrants, valuation by present value, forward exchange transactions etc.

97. The following accounting and reporting issues are currently being considered for standard-setting:

(a) Auditing standards are currently being considered for general revision;

(b) SEC is considering establishing industry accounting standards (including banks and insurance companies);

(c) SEC will require corporations to disclose audited consolidated financial statements.

Singapore

98. The Institute, as a member body of the International Accounting Standards Committee (IASC) and the International Federation of Accountants (IFAC), has adopted virtually all the International Accounting Standards (IAS) issued by IASC.

99. The Institute's Statements of Accounting Standards (SAS) and Provisional Statements of Accounting Standards (PAS) are largely based on the International Accounting Standards. The following Statement of Accounting Standards, Provisional Statement of Accounting Standards and Recommended Accounting Practice (RAP) were adopted and issued by the Council of the Institute during 1989 and 1990.

Statement of Accounting Standards		IAS equivalent	Effective date
SAS 26	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	IAS 27	1 January 1990

This statement deals with the preparation of consolidated financial statements for a group of enterprises under the control of a parent.

Provisional Statement of Accounting Standards

PAS 14 Accounting for Investments in Associates IAS 28

This statement deals with accounting by an investor for investments in associates. It supersedes IAS 3, Consolidated Financial Statements.

Recommended Accounting Practice

RAP 1 Framework for the preparation and presentation of financial statements

This framework sets out the concepts that underline the preparation and presentation of financial statements for external use.

100. The following accounting and reporting issues are currently being considered:

(a) Accounting for complex capital issue. The statement deals with the accounting treatment on convertible debt securities and debt securities with detachable share warrants;

(b) Financial reporting of interests in joint ventures, ED 35. The statement deals with accounting for interests in joint ventures and the reporting of a joint venture's assets, liabilities, income and expenses regardless of the structures or forms under which the joint venture activities take place.

Spain

101. The following new legal requirements governing corporate accounting and reporting were passed during 1989 and 1990:

(a) Law 19/1989, adapting Spanish legislation to Directives of the Council of the European Communities;

(b) Circular 9/1989, models of annual financial statements and of companies and agencies dealing in securities;

(c) Royal decree 1597/1989, concerning deposits and the publication of annual accounts.

102. The following issues are under consideration:

(a) Accounting standards for consolidation, adjusted to conform with the Seventh Directive;

(b) Sectoral adjustments to the New General Accounting Plan:

(i) Construction sector;

(ii) Electricity sector;

(c) Accounting standards governing mergers of businesses.

Sweden

103. Owing to a change in the Accounting Act, enterprises, as at 1 January 1990, have to report the number of men and women employed.

104. Since the last questionnaire, the following accounting standard of international interest has been implemented:

SASB recommendation No. 8. Legal demands in annual reports and consolidated accounts for other than joint stock companies. The statement is a specification of the legal demands.

105. At present, recommendations concerning goodwill, segment reporting and long-term contracts are under consideration. It is expected that a recommendation on segment reporting will be adopted.

Switzerland

106. During 1989 and 1990, Accounting Standards (ARR/FER) No. 3, on fundamental accounting principles, No. 4, on foreign currency translation and No. 5, on evaluation principles in consolidated statements, have been adopted and published.

107. A takeover code, on a voluntary basis, has been issued binding all companies listed on the Swiss stock exchange (that is, it does not have force of a law, but so far all listed companies have adhered to the rules; for example, Jacob Suchard in the recent takeover by Philip Morris).

108. The Code of Obligation, Company Law section, has again been amended in the draft submitted to Parliament. However, owing to new amendments concerning takeovers and the transfer of registered shares, the final adoption by Parliament has again been postponed.

109. Several rules concerning accounting and reporting for pension funds have been changed (mix of assets etc.)

110. In 1990, the Swiss accounting standard-setting body worked on the following projects, among others:

(a) Classification/format of financial statements (articulation des comptes annuels).

(b) Recommendation on funds flow statements/cash statements;

(c) Recommendation on the equivalence of consolidated financial statements according to ARR/FER with European Economic Community rules.

Turkey

111. The legal requirements and/or standards governing corporate accounting and reporting have been set by the Tax Procedure Law, which was adopted by the Turkish Grand National Assembly on 4 January 1961. There has been no change in that code during 1989 and 1990.

112. Article 175 (Freedom to Choose the Accounting Procedure) of the Commercial Code states that: "On condition they adhere to the aims and principles specified in this chapter, taxpayers shall be free to arrange their books and accounts in any manner and procedure they wish which conforms to the structure of their business. The provisions of the Commercial Code concerning the maintenance of books are reserved."

113. Recently, a working group has been set up to prepare unified accounting principles for all enterprises. The project will be completed by 1991.

United Kingdom of Great Britain and Northern Ireland

Legal requirements

114. The Companies Act 1989 was passed into law at the end of 1989. This Act implements the Seventh and Eighth Directives of the Council of the European Communities on consolidated accounts and the qualifications of auditors, respectively.

115. In addition, the Act requires companies (other than small- and medium-sized companies) to state in their annual accounts whether those accounts have been drawn up in compliance with applicable accounting standards and to give particulars of any material departure and the reasons for it.

116. Further, provision was made for listed companies to send to their shareholders summary financial statements instead of the full accounts.

Accounting standards

Issued in 1989:

SSAP 13 (revised). Accounting for research and development expenditure. Permits capitalization of development expenditure under certain conditions and requires disclosure by large companies of all research and development expenditure charged to the profit and loss account analysed between current expenditure and amortization of past expenditure.

SSAP 22 (revised). Accounting for goodwill. Requires goodwill normally to be written off on acquisition against reserves but permits capitalization and amortization through the profit and loss account. Also, additional disclosure requirements introduced regarding acquisitions made during the year.

Issued in 1990:

SSAP 25. Segmental reporting. Requires large companies to provide segmental information by geographical area and by class of business.

SSAP 4 (revised). The accounting treatment of government grants.

117. Topics on which exposure drafts have been issued and standards are being or will be developed include the following:

ED 46 Related party transactions; proposal that abnormal transactions with related parties be disclosed.

ED 47 Accounting for goodwill; proposal that capitalization and amortization through the profit and loss account be the only permitted treatment.

ED 48 Accounting for acquisitions and mergers; proposal that the conditions for merger accounting (pooling of interests) be more narrowly defined than hitherto and that merger accounting be required when the conditions are met instead of merely permitted as at present.

ED 49 Reflecting the substance of transactions in assets and liabilities; proposals to bring on to the balance sheet items which have defined characteristics.

ED 50 Consolidated accounts; proposals to complement the statutory changes in the Companies Act 1989 and to interpret "dominant influence" and "unified management" in the context of the definition of subsidiary undertakings.

ED 51 Accounting for fixed assets and revaluations; proposals to require revalued assets to have valuations kept up to date and for the treatment of write-downs and profits or losses on disposal.

ED 52 Accounting for intangible fixed assets; proposals that brands and similar assets be treated in the same manner as goodwill.

ED 53 Fair value in the context of acquisition accounting; proposals covering the valuation of assets and the creation of provisions when first accounting for a subsidiary undertaking.

ED 54 Cash flow statements; proposal to replace the current source and application of funds statement with a cash flow statement.

ED 55 Accounting for investments; proposal that readily marketable investments held as current assets be valued at market value with gains and losses being taken to the profit and loss account.

Zaire

118. New legal requirements and standards enacted during 1989 and 1990 include the following:

Edict No. 89-037 of 17 August 1989, instituting the possibility of deducting professional losses on previous profits (maximum period is five years), as well as unlimited deferral of depreciation;

Edict No. 89-038/039 of 17 August 1989, instituting tax rates for small- and medium-sized enterprises;

Edict No. 008/CAB/FIN/90 of 12 February 1990, establishing the coefficients for revaluation for balance sheets ending on 31 December 1989.

119. The following accounting and reporting issues are currently being considered for standard-setting:

(a) Agricultural accounting;

(b) Recording of operations in foreign currency;

(c) Recording of intangible assets;

(d) Organization of the accounting profession;

(e) Banking, insurance and public sector accounting.